

Message Text

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14-11

ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 H-02 INR-07 L-03 NSAE-00

NSC-05 PA-01 PRS-01 SP-02 SS-15 ACDA-05 TRSE-00

SAJ-01 AID-05 EB-07 CIEP-01 STR-04 OMB-01 CEA-01

INRE-00 NSCE-00 SSO-00 USIE-00 SAM-01 COME-00 MC-02

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SECDEF WASHDC IMMEDIATE

INFO DEFENSE SECURITY ASST AGENCY WASHDC IMMEDIATE

USCINCEUR VAIHINGEN GERMANY IMMEDIATE

AMCONSUL ZURICH

C O N F I D E N T I A L BERN 2400

DOD FOR ASD: ISA

DSAA FOR VIOLETTE

USCINCEUR FOR ECJ2

E.O. 11652: GDS

TAGS: MASS PFOR ETRD SZ

SUBJECT: MEMORANDUM OF UNDERSTANDING (MOU) RE OFFSET IN CONNECTION
SALE TO SWITZERLAND OF F-5-E AIRCRAFT

REF: BERN 1818

1. SUMMARY. SWISS REGARD DRAFT MOU RECENTLY RECEIVED
FROM DOD AS UNSATISFACTORY. ARMAMENTS AGENCY (GRD) CHIEF
GROSSENBACHER IN JUNE 13 MEETING AT DOD WILL URGE 50
PERCENT COMPETITIVE PROCUREMENT TARGET AND PRIMARY ROLE
FOR DOD AND GRD. GROSSENBACHER WILL ALSO STRESS PRIME
POLITICAL IMPORTANCE OF CREDIBLE AND MEANINGFUL OFFSET
PROGRAM IN ORDER SATISFY INCREASINGLY VOCAL INDUSTRIAL/
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LABOR/POLITICAL PRESSURES WHICH ARE ARGUING THAT CLEAR

BENEFITS FOR SWISS ECONOMY ARE ESSENTIAL AT THIS TIME OF RECESSION AND EXPORT DECLINE. SWISS ALSO CONCERNED RE SHORT TIME REMAINING IN ORDER MEET THEIR SCHEDULE OBTAIN FEDERAL COUNCIL AND PARLIAMENTARY APPROVALS. END SUMMARY.

2. DCM, AIR ATTACHE, E/C COUNSELOR, AND LOCAL NORTHROP REP MET WITH GROSSENBACHER JUNE 10 AT LATTER'S REQUEST TO RECEIVE PRELIMINARY SWISS REACTION TO DRAFT MOU PRIOR TO GROSSENBACHER'S TRIP TO WASHINGTON FOR MEETINGS AT DOD. ALSO PRESENT WERE BOLLINGER (CHIEF OF STAFF OF SWISS AIR FORCE) AND KELLER AND HUBER OF GRD. GROSSENBACHER SAID US-DRAFT MOU HAS BEEN USED AS POINT OF DEPARTURE FOR SUGGESTED SWISS REVISED DRAFT WHICH HE WILL BRING TO WASHINGTON.

3. AT TIME OF ECONOMIC RECESSION IN SWITZERLAND (WITH 3 PERCENT DECLINE IN REAL GNP FORECAST FOR 1975, UNEMPLOYED AND THOSE ON SHORT WEEKS UP SHARPLY, VERY HIGH VALUE OF SWISS FRANC HARMING EXPORT OPPORTUNITIES) SWISS INDUSTRY, LABOR AND PARLIAMENT ARE INCREASINGLY INSISTING ON SUBSTANTIAL OFFSET IN CONNECTION WITH F-5-E PURCHASE. GROSSENBACHER NOTED THAT SWISS HAVE NEVER PREVIOUSLY SOUGHT OFFSET ARRANGEMENT BUT THAT PRESENT ECONOMIC CLIMATE MAKES ACHIEVEMENT OF MEANINGFUL OFFSET PROGRAM ESSENTIAL AT THIS TIME IN ORDER TO SECURE SUPPORT FOR PROPOSED PURCHASE. BOLLINGER ALSO NOTED QUICK SWING THAT HAS OCCURED IN ATMOSPHERE NOTING THAT ONLY YEAR AGO HE WOULD HAVE THOUGHT OFFSET UNIMPORTANT COMPARED WITH NEED SATISFY MILITARY REQUIREMENTS AT LOWEST POSSIBLE COST.

4. GROSSENBACHER REPEATEDLY SAID THAT 25 PERCENT OFFSET OBJECTIVE WAS TOO LOW AND THAT 50 PERCENT TARGET SUGGESTED BY SWISS WAS REASONABLE PARTICULARLY SINCE SWISS INDUSTRY HAD ORIGINALLY STRONGLY ADVOCATED 100 PERCENT OFFSET AND GIVEN OTHER PAST AND FUTURE SWISS MILITARY HARDWARE PURCHASES FROM US SOURCES. HE ALSO STRONGLY URGED THAT DOD ASSUME PRIMARY RESPONSIBILITY FOR ATTAINMENT OF OFFSET GOAL IN MOU, ALTHOUGH HE RECOGNIZED THAT USG WOULD NATURALLY EXPECT MAJOR EFFORT BY NORTHROP AND

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GE. WITH REGARD PARA 4(A) OF DRAFT MOU HE THOUGHT SWISS INDUSTRY COULD DO LITTLE IF ANYTHING ON F-5-E AND F PROGRAMS SINCE A) OTHER EXISTING SUBCONTRACTORS WERE FAR ADVANCED ON LEARNING CURVE FOR THIS AIRCRAFT AND B) SWISS RESTRICTIONS ON EXPORT OF WAR MATERIAL COMPLICATED SUBCONTRACTING IN SWITZERLAND. THUS MOST IF NOT ALL OF OFFSET WOULD HAVE TO BE OUTSIDE OF F-5 PROGRAM. CONTEMPLATED FINAL ASSEMBLY OF AIRCRAFT IN SWITZERLAND WILL PROVIDE SOME JOBS

BUT WILL BE ENTIRELY AT SWISS EXPENSE.

5. SWISS CLEARLY HAVE IN MIND THAT OFFSET TARGET WILL REFLECT ADDITIONALITY. HUBER NOTED THAT WITH 50 PERCENT TARGET THE GRD OFFICER MONITORING PROGRAM COULD BE CONSIDERABLY MORE LIBERAL IN DEFINING WHAT IS ADDITIONAL BUSINESS THAN HE COULD BE WITH SOME LOWER GOAL. FOLLOWING EXAMPLES OF HIGH-QUALITY, LOW VOLUME PRODUCTS SWISS BELIEVE THEY COULD SELL IF BARRIERS REMOVED AND THEY PLACED ON COMPETITIVE FOOTING WERE CITED: MACHINERY AND MACHINE TOOLS, AIRCRAFT CLOCKS AND INSTRUMENTS, AND THEODOLITES.

6. GROSSENBACHER ALLUDED TO DECISION OF FOUR NATO COUNTRIES PURCHASE F-16 AND TO IMPRESSION HELD BY SWISS THAT OFFSET FIGURES INVOLVED IN THOSE PROPOSED TRANSACTIONS WERE WELL ABOVE 25 PERCENT.

7. GROSSENBACHER ALSO EXPRESSED BELIEF THAT FRENCH ARE LIKELY UNDERTAKE INTENSIFIED EFFORT MAKE AIRCRAFT SALE TO SWITZERLAND AND HAVE ALREADY INDICATED VERBALLY TYPES OF OFFSET THEY COULD OFFER. GRD IS ALSO CONCERNED THAT FAILURE OBTAIN SATISFACTORY COMPETITIVE PROCUREMENT ARRANGEMENT WITH US WOULD LEAVE GRD OPEN TO ATTACK FOR HAVING CONCENTRATED ITS EVALUATION ONLY ON SINGLE AIRCRAFT AND THUS LOSING OUT ON POTENTIAL BENEFITS FROM KEEN COMPETITION WITH ANOTHER AIRCRAFT.

8. SCHEDULE. GRD'S PRESENT SCHEDULE IS TO MAKE RECOMMENDATION TO FEDERAL COUNCIL BY END OF JUNE FOR ITS DECISION IN AUGUST FOLLOWING VACATION PERIOD AND SUBSEQUENT TRANSMITTAL OF MESSAGE TO PARLIAMENT IN SEPTEMBER FOR ACTION IN DECEMBER AND MARCH 1976 SESSIONS. GROSSENBACHER WOULD LIKE TO BE ABLE INITIAL MOU WHILE IN WASHINGTON. IT CONFIDENTIAL

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WOULD THEN BE REVIEWED BY FEDERAL COUNCIL (PRESUMABLY DURING JUNE) AFTER WHICH HE HOPES THAT IT MIGHT BE POSSIBLE FOR FEDERAL COUNCILOR GNAEGI (IN CHARGE MILITARY DEPARTMENT) AND DEFENSE SECRETARY SCHLESINGER TO MEET AND SIGN MOU.

9. SWISS WOULD WANT TO MAKE GENERAL STATEMENT TO INTERESTED PARTIES IN SWITZERLAND ON OFFSET AND WOULD HAVE TO PROVIDE DETAILS OF ARRANGEMENT TO PARLIAMENTARY COMMITTEES. BUT GRD WOULD WANT TO COORDINATE THIS ASPECT CAREFULLY WITH DOD. GROSSENBACHER WILL BE PREPARED DISCUSS IN WASHINGTON.

10. EMBOFFS PRIMARILY LISTENED TO EXPOSITION SWISS POSITION AND PROMISED REPORT FULLY TO WASHINGTON.

11. COMMENT. AS INDICATED REFTL, SWISS HAVE STEADILY ATTACHED GREATER AND GREATER IMPORTANCE TO SATISFACTORY, REALISTIC OFFSET ARRANGEMENT TO POINT WHERE FAILURE TO ACHIEVE PROGRAM WHICH IS CREDIBLE AND LARGELY SELF-EXECUTING COULD CAUSE SERIOUS PROBLEMS FOR ENTIRE F-5-E SALE TO SWITZERLAND. DOMINICK

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